

GRIT INSURANCE WHITEPAPER:

Changing My Home Insurance

How Does It Affect My Escrow Account?



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Home owners is not required by law. However, If you have a mortgage on your home the lender that holds your mortgage will require you to carry homeowners insurance. Or they will place coverage for you (forced placed insurance)

When you have selected your insurance carrier the mortgage company will save a portion of your monthly mortgage payment into you escrow account to pay the taxes & insurance once per year. This is known as PITI (Principle, Interest, Taxes & Insurance) In this way you are not having to save separately in order to pay your taxes and insurance.

When you decide to switch insurance to another carrier. The mortgage company has to be notified of this change and they will send a 2nd payment to the new insurance carrier on your behalf to ensure the home insurance is current. This will cause a shortage in your escrow account similar to a negative balance in your checking account.

When you cancel the previous home insurance carrier, they will send you a pro-rated refund of the unused premium directly to you. The previous insurance carrier can not send this money back to your mortgage company to replenish your escrow.

What should you do with the refund check?

1. **Cash it & keep the funds?** This is not what we recommend from a budgeting standpoint. When the escrow account is analyzed at the end of the year. They will realize there is a shortage and increase your monthly deposits into the escrow account to make up the difference. This will increase your mortgage payment.
2. **Cash it and send it back to my mortgage as an escrow deposit?** We highly recommend doing this. When you receive the refund. Set the money aside and send it back to the mortgage as a separate payment to replenish your escrow balance. Be sure to notify the mortgage company what the payment is for. They could see it as a principle payment and reduce your loan balance, but it will still cause your mortgage rates to increase on the annual review of your loan.